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SENSITIVE
SIPDIS

NEA/ELA FOR SCHALL

E.O. 12958: N/A
TAGS: ENRG PREL ECON IS EG
SUBJECT: EGYPTIAN COURT SEEKS TO END NATURAL GAS EXPORTS TO ISRAEL

REF: A. CAIRO 419
1B. CAIRO 1359
1C. CAIRO 2257
1D. SIDEREAS-SCHALL EMAIL 11/2/08

Sensitive but unclassified. Please treat accordingly.

11. (SBU) The Administrative Court of Cairo ruled on November 18 that ongoing natural gas exports to Israel should be halted because the export agreement between Egypt and Israel violates article 123 of the Egyptian constitution, pertaining to the protection and use of natural resources. The court determined that the Ministry of Petroleum violated the Constitution by allowing the state-owned Egyptian General Petroleum Corporation (EGPC) and Egyptian Gas Holding Company (EGAS) to negotiate a gas export agreement with the Eastern Mediterranean Group Company (a private pipeline operator) and Israel in 2005 without the approval of the People's Assembly.

This decision was reached by a court of first review and may be appealed to the Supreme Administrative Court of Egypt. Contacts in the Ministry of Petroleum are not yet willing to discuss the verdict but a member of the public relations office told econoff that the case does not have sufficient merit to withstand an appeal before the Supreme Administrative Court.

12. (SBU) According to Al Jazeera and Masrawy, an independent Egyptian electronic news service, the plaintiff, retired Egyptian ambassador and lawyer Ibrahim Yousri, filed this lawsuit because the terms of the export agreement were overly favorable to Israel and financially disadvantageous to Egypt.

Masrawy reported that Yousri is affiliated with a citizens' group opposed to gas exports to Israel led by Mohamed Anwar el Sadat, former member of the People's Assembly and nephew of assassinated president Anwar el Sadat.

13. (SBU) The exact price of Egyptian gas per MMBTU to Israel is not known but industry contacts told econoff that it is likely under \$1.50 per million British Thermal Units (MMBTU).

Egyptian gas exports to Israel have been controversial since news of the deal became public (refs A-C) and criticism intensified when world prices for natural gas skyrocketed to \$13 per MMBTU in the spring of 2008. Prime Minister Nazif and Petroleum Minister Fahmy have frequently repeated since September that the Ministry of Petroleum was renegotiating all export contracts. The Egyptian press reported recently that the GOE had succeeded in increasing the price per MMBTU for its liquefied natural gas (LNG) exports to Gaz de France and Union Fenosa of Spain to \$3.12 per MMBTU from \$1.78 (ref D).

14. (SBU) COMMENT: We expect that the Ministry of Petroleum will appeal this decision to the Supreme Administrative Court. We do not anticipate that gas exports will be halted

pending the appeal and will continue to monitor the situation.
SCOBAY